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Social and Innovative Banking Strategies for Sustainable Banking in India

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ABSTRACT

Indian banking industry has been growing at a fast pace and is challenged with several aspects like new regulations from time to time, changing customer needs and perceptions. The banking system touches the lives of millions and has to be inspired by larger social purpose and has sub-verse national priorities and objectives such as rapid growth of agriculture, small industries and exports, rising of literacy rate, encouraging new entrepreneurs and development of backward areas. Technology has been playing a crucial role in the tremendous improvement of banking services and operations. This paper makes an attempt to analyze the various constructs of social banking and innovative banking in India. It also analyses some of the common issues of social banking and bank marketing. The specific objectives of this research are to study the initiatives undertaken by selected banks in India on social banking and innovative banking. The study is a conceptual one based on survey of literature. Two models of innovation 4P's of Innovation model by Bessant and Tidd (2007) and Six Dimensional Service Innovation Model by Pim den Hertog et al., (2010) were used in the study. It is observed that banks in India are moving towards sustainability through social banking and innovative service operations and offerings. It is found that both types of banks have embraced service innovation as a part of their future banking strategy and are moving continuously towards customer-centric and service-centric banks.

Keywords: *Indian Banking Sector, Innovative Banking, Social Banking, Service Innovation Model, Sustainable Banking.*

1. INTRODUCTION

Indian Banking Sector has witnessed a number of changes. Most of the banks in India have begun to take an innovative idea towards banking with the objective of creating more value for customers and to attract more and more customers in the banking network. If we see the history of Indian Banking, it is found that Indian banking has already undergone a huge transformation in the years since Independence. The rate of transformation was particularly high in the 1990s and 2000s, when a number of innovations changed the way banking was perceived and it was the result of autonomous and induced necessities of the environment. In the 1990s, the banking sector in India pronounced greater emphasis being placed on technology and innovation. Banks began to use technology to provide better quality of services at greater speed. Information technology has made it convenient for customers to do their banking from geographically diverse places which earlier remain uncovered. Banks also enlighten their focus on rural markets and introduced a variety of services geared to the special needs and desire of their rural customers (Murthy & Murthy, 2006 [[i]]). Banking activities also shifted their traditional scope and new concepts like personal banking, retailing, investment banking and bank assurance were introduced. Further, Banking sector in India was also moving rapidly towards universal banking and electronic transactions, which were expected to change the way banking would be perceived in the future (Jayakumar & Anbalagan, 2012[[ii]]).

It is observed that technology has been playing a crucial role in the tremendous improvement of banking services and operations. Important events in the evolution of new age payment systems in India which includes arrival of card-based payments, debit card, credit card - late 1980's and early 1990's; introduction of Electronic Clearing Service (ECS) in late 1990's; Electronic Funds Transfer/ Special EFT (EFT/SEFT) in the early 2000's; Real Time Gross Settlement (RTGS) in March 2004; NEFT (National Electronic Funds Transfer) as a replacement for EFT/SEFT in 2005/06; Plan for implementation of cheque truncation system as a pilot programme in New Delhi in 2007 and further implementation in 2013; migration from cash and cheque based payment system; it has become a necessity to electronic fund transfer system and many more.

In recent time, we have witnessed that the world economy is passing through some intricate circumstances as bankruptcy of banking & financial institutions, debt crisis in major economies of the world and euro zone crisis. The scenario has become very uncertain causing recession in major economies like US and Europe (Goyal & Joshi, 2012[[iii]]. This poses some serious questions about the survival, growth and maintenance of sustainable development.

However, amidst all this turmoil India's Banking Industry has been amongst the few to maintain resilience. The tempo of development for the Indian banking industry has been remarkable over the past decade. It is evident from the higher pace of credit expansion, expanding profitability and productivity similar to banks in developed markets, lower incidence of non-performing assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong (FICCI Annual Survey, 2010[[iv]]). Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling (Gumparthi, Khatri, and Manickavasagam, 2011[[v]]).

Today, Indian banking industry is enriched both in terms of offering value added services and delivering quality service. Researcher and thinkers all over the world thought that the world financial crisis would impact the Indian banking sector in a serious manner. But this was not so happen because of strong foundation of Indian banking system with the support from well structured financial systems and the anticipated impact of the world crisis was almost insignificant [vi]. Instead, it helped the banks to get strengthened further and become closer to the customer with innovative approaches [vii]. It is observed that Banks in India appear to be on the path of achieving sustainability and a long-term survival because of innovation. This study aims at identifying the initiatives of some public and private sector banks in India towards sustainability through a planned and systematic service innovation. Study also focuses on some of the recent innovative trends in banks in India. Innovation models of Bessant and Tidd (2007[viii]) and Six Dimensional Model of Service Innovation developed by Pim den Hertog et al. (2010[ix]) were used for this purpose.

2. REVIEW OF LITERATURE

In recent years, the service sector has become a dynamic component of economic activity and growth. The observable growth in internet, web-based services and high-technology environmental services indicates that knowledge intensive services are having a greater value-added role in economic growth. Within the services, the banking sector plays a significant role in the economic development of the country. The size and composition of banking transactions signifies the economic happenings in the country (Vaish, 1978[x]). Liberalization of financial services and technological developments have made a sea change in the banking system, from a totally regulated environment, the banking sector has gradually evolved into a market driven competitive system.

Technology has transformed the delivery channels by banks in retail banking. It has also impacted the markets of banks. Janki (2002[xi]) analyzed that how technology is affecting the employees' productivity. Hua (2009[xii]) investigates the online banking acceptance in China by conducting an experiment to investigate how users' perception about online banking is affected by the perceived ease of use of website and the privacy policy provided by the online banking website. Jalan (2003[xiii])articulated that IT revolution has brought about a fundamental transformation in banking industry and opined that perhaps no other sector has been affected by advancement in technology as much as banking & finance. Mittal & Dhingra (2007[xiv]) and Padhy (2007[xv]) studied the role of technology in banking sector. Sachan and Ali (2006[xvi]) observed that the diffusion of information and communication technologies (ICT) has been a prime vehicle of technological progress and services in general and banking in particular are the main beneficiaries of investment in ICT. Empirical evidence suggests that technological innovations in banks have been larger than in the rest of the economy. Bradley and Stewart (2003[xvii]) observed that the financial services environment has been subject to changes on many fronts.

Technological change and the advent of the internet are among the most dramatic and challenging areas of change for the sector. Technological innovations have shown the increased productivity as stated by Rishi and Saxena (2004[xviii]). Study identified that technological innovations in the banking sector in industrialized countries have been shown to increase productivity of banking industry around the world. Arora (2003[xix]) highlighted the significance of bank transformation. Technology has a definitive role in facilitating transactions in the banking sector and the impact of technology implementation has resulted in the introduction of new products and services by various banks in India. Mohan (2003[xx]) expressed his views regarding the transformation in Indian Banking that if Indian Banks are to compete globally, the time is opportune for them to institute sound and robust risk management practices. Sandhu (2003[xxi]) observed the impact of IT and particularly e-delivery channels on the performance of Indian banking system. Shapiro (2000[xxii]) studied the effects of cyberspace on efficiency and productivity of banks.

Another study by Ferreira and Godinho (2005[xxiii]) has identified the relationship between innovation and performance for services sector in Portugal. As per Roberts and Raphael (2007[xxiv]) the vast majority of observed innovative activity is based on ideas sourced from outside the focal firm and innovation diffused very quickly across the competing banks. The study puts emphasis on relationship between innovation and competitive advantage. Jha et al. (2008[xxv]) have analyzed the use and effectiveness of information technology in the Indian Banking sector. The study observes that the technology access, up-gradations and innovations in various functional areas of banking are of the highest level in India and banking being one of the fastest growing sectors of the Indian economy, where technology is customer-oriented service.

Kumar and Gulati (2008[xxvi]) examine the issue of convergence of efficiency levels among Indian public sector banks (PSBs) during the post-reform period. Lewrick (2008[xxvii]) gives innovativeness, capabilities and potential (ICP) model which can be used to audit the management capability to innovate and to monitor how sales increase. The model has been found to be effective in predicting the success of the innovation strategy used by the company.

From the above reviews it is observed that the banking industries itself adopted various innovative schemes for furtherance of their business and to attract more and more customers. These has resulted their sustainability and keep their brand image even in the competitive environment. Further, technology is one of the important segments where maximum stresses are provided for dissemination of innovative ideas and it is observed that major innovation took place in this field in recent years.

3. OBJECTIVES OF THE STUDY

The specific objectives of this research study includes

a. To review the bank marketing mix strategies of Indian banking sector.
b. To identify and analyze the social banking initiative undertaken banks in India.
c. To identify and analyze service innovation initiatives undertaken by selected banks.
d. To make a comparative study of these initiatives with reference to the two innovative models of Bessant and Pim den Hertog and to put forward some suggestions in this regard.

4. METHODOLOGY

The study is a conceptual one based on survey of literature. For the purpose of the study, the official web sites of the selected banks namely State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India, Ing Vyas Bank, YES Bank and ICICI Bank were considered along with additional literature. The period of the study is for three months from January to March, 2013. 4Ps of Innovation model by Bessant and Tidd (2007) and Six Dimensional Service Innovation Model by Pim den Hertog et al., (2010) are used to study the research objectives. An analysis has been carried out by applying the above models to identify and compare various strategies adopted so far by the above banks keeping in tune with the selected models.

5. BANK MARKETING MIX AND STRATEGIES

Marketing approach in banking sector had taken significance after 1950 in western countries and then after 1970 in India (Vadhar, 2011 [[xxviii]]). The first major step in the direction of marketing was initiated by the State Bank of India in 1972, when it recognized itself on the basis of major market segments, dividing the customers on the basis of activity and carved out four major market segments (Muraleedharan, 2010[[xxix]]). New banking perceptiveness oriented toward market had influenced banks to create new market. Banks had started to perform marketing and planning techniques in banking in order to be able to offer their new services efficiently.

Marketing scope in banking sector should be considered under the service marketing framework. Performed marketing strategy is the case which is determination of the place of financial institutions on customers' mind. Bank marketing does not only include service selling of the bank but also is the function which gets personality and image for bank on its customers' mind (Gunal Once, 2001[[xxx]]; Muraleedharan, 2010[[xxxi]]). On the other hand, financial marketing is the function which relates uncongenitalies, differences and non-similar applications between financial institutions and judgment standards of their customers.

The marketing comprehension that is performed by banks since 1950 can be shown as in following five stages (Gunal Once, 2001[[xxxii]]):

a. Promotion oriented marketing comprehension
b. Marketing comprehension based on having close relations for customers
c. Reformist marketing comprehension
d. Marketing comprehension that focused on specializing in certain areas
e. Research, planning and control oriented marketing comprehension

In our developing economy, the formulation of a sound marketing mix is found a difficult task. The nationalization of the Reserve Bank of India is a landmark in the development of Indian Banking system that have paved numerous paths for qualitative-cum quantities improvements in true sense (Vadhar, 2011 [[xxxiii]]). Subsequently, the RBI and the policy makers of the public sector commercial banks think in favor of conceptualizing modern marketing which would bring a radical change in the process of quality up gradation and village to village commercial viability(Vadhar, 2011 [[xxxiv]]; Saraf et al., 2010[[xxxv]]).

The first task before the public sector commercial Banks is to formulate that Bank marketing mix which suits the national socio-economic requirements. Some have 4 P's and some have 7 P's of marketing mix. The common P's of bank marketing mix are as follows:-

5.1 Product

First among the P's of bank marketing is product mix. Product stands for both goods and service combination offered to the public to satisfy their needs. In the highly regulated banking industry all offered the same type of products. But the drawback is that no brand can be marketed with unique selling proposition for long because it can be copied immediately. Thus, it is better to focus on some selected ideas relating to products, which have immediate operational utility as well as feasibility on banks.

In the evolution of bank products, the products can be categorized into three groups. They are Core products, Formal products, and augmented product. Core products are those products, which define the business. For a bank, some of the core products are Savings Bank Account, Current Account, Term deposit, Recurring deposit, Cash credit, Term loan, overdraft and the like. In the line product evolution, the next type of product is Formal product. Formal product is usually a combination of two or more core products and they have strong marketing content as they cater to some specific customer needs augmented product is made out of formal product which itself has a strong marketing content. It is further reinforced through value addition. A very good example for augmented product is Smart Money Account with

Hong Kong Bank. When one opens a Smart Money Account, an account holder will also get free Any Time Money Card.

5.2 Price

Price is a critical and important factor of bank marketing mix due numerous players in the industry. Most consumers will only be prepared to invest their money in search of extraordinary or higher returns. They are ready to pay additional value if there is a perception of extra product value. This value may be improved performance, function, services, reliability, promptness for problem solving and of course, higher rate of return.

5.3 Promotion

One of the most important elements of marketing mix of services is promotion. The promotion is to inform and remind individuals and persuade them to accept, recommend or use of a product service or ideas. Promotion is a demand stimulating aid through communication. When a bank comes out with a new product, it makes its target customer segment aware of it only through marketing promotion. It may be in various forms like press advertisement, sales campaign, word of mouth, personal interaction directly mailing. Making the customer may be enough if the product is unique or in great demand.

Bank Marketing is actually is the marketing of reliability and faith of the people. It is the responsibility of the banking industry to take people in favor through word of mouth publicity, reliability showing through long years of establishment and other services.

5.4 Place

The most important element in distribution strategy relate to this issue of location of the banks to render their service. Distribution means delivery of the products or service at the right time and at the right place. The place where the banking products or service are delivered is an important element in bank marketing. The place strategy of Indian banks has been on the basis of too many parameters. Prior sanctions from RBI and responsibility of banks towards development of banking habit in remote unbanked areas have been some of the important given parameters. So from the marketing stand point, place strategy is not fully positive to Indian baulks. The choice of location and time to make a product available will have significant impact on the customers. Customers often need to avail banking services fast for this they require the bank branches near to their official area or the place of easy access.

5.5 Process

The process is crucial to the bank marketing strategy. It gives value to the buyer and an element of uniqueness to the product. It is very significant because it provides competitive advantage to the bank. The importance of process in bank marketing strategy is based on 'value chain concept' given by Michael Porter (1996[[xxxvi]]). The concept basically stresses close attention to all the organizational activities which go into marketing the final product to the customer. In the banking context, a typical value chain would encompass all activities right from the product conceptive stage down to its marketing at branch level. All these ultimately lead to the customer's satisfaction with the product that the customer has purchased.

5.6 People

The Indian banking industry is not an exception to the modern forces of changes and competition. Many new ideas and strategies have been introduced since the introduction of the new economic policy. Like any other service industry, banking is a labor intensive industry. The human factor plays a pivotal role in the running of the businessmen unlike machine have varying attitudes, moods, heterogeneous cultures, feelings and above all, different aspirations. People are crucial to the success of any business. It is far more so in a service oriented industry like banking.

5.7 Physical Evidence

Physical evidence is the strategic tool for the bank marketer. Banking products are intangible. Tangibilising the intangible commodity is a major challenge to the bank marketer. One among the important methods is the upkeep of branch premises and interior decor. This is relevant not only from the point of view of physical evidence but also for tangibilisation strategy. Another strategy is imaginative designing of bank stationery used by customers. Product packaging could be another tangibilisation strategy and marketers called it as a separate 'P' of marketing strategy.

5.8 Personal Selling

Due to the characteristics of banking services, personal selling is the way that most banks prefer in expanding selling and use of them. Personal selling occurs in two ways. First occurs in a way that customer and banker perform interaction face to face at branch office. In this case, whole personnel, bank employees, chief and office manager, takes part in selling. Second occurs in a way that customer representatives go to customers' place. Customer representatives are specialist in banks' services to be offered and they shape the relationship between bank and customer.

5.9 Public Relations

Public relations in banking should provide avenues for establishing most effective communication system, creating sympathy about relationship between bank and customer, and giving broadest information about activities of bank.

6. SOCIAL BANKING IN INDIA

The concepts of social control emerged after takeover of banks operating in 1955 and 1959, in 1967 to serve better the needs of development in conformity with national priorities. It was seen that every bank in India had to earmark a minimum percentage of their loan portfolio to sectors identified as 'priority sector'.

Social banking provides the basic financial support required by the economically weaker sections of the society and thereby enables them to participate and benefit from the developmental programmes of the Government. Once this is achieved, social banking leads to the desired goal of sustainable development. Social banking plays a pivotal role for poverty alleviation through the network of commercial banks, cooperative banks, Regional Rural Banks, microfinance institutions, primary agriculture credit societies and Self Help Groups. However, availability of credit alone may not alleviate poverty. It is also important to carry out other allied reform which enables better absorption of microfinance. Thus, the banks and financing institutions enable and ensure flow of credit to the poor to strengthen their economy.

Social banking policies were made to shift the focus of commercial banks from "selective banking" to "mass banking". Social banking is rightly defined by Benediktar (2011[xxxvii]) as banking with a conscience. Here, the bank focuses on investing in community, providing opportunities for the disadvantaged, and supporting social, environmental and ethical agenda. Rather than just concentrating on traditional bottom line i.e. profits, bank emphasizes on achieving triple bottom line of profit, people and planet [xxxviii].

The Social Banking era in India can said to be originated from nationalization of banks. Fourteen commercial banks were nationalized on 19th July 1969 with the main objectives of allocating funds to the deprived so as to enhance social welfare, eliminating the monopoly control of private business houses and corporate families on banks, extend banking across the country, reducing regional imbalances etc. The second significant landmark in social banking was branch multiplication in license raj. Here for obtaining a license to open a branch in banked area, a commercial bank was asked to open 4 branches in unbanked region. Because of this 1:4 license rule, there was tremendous increase in branches of banks. Thirdly, commercial banks were asked to divert 40% of their advances towards priority sector.

The social banking initiative undertaken by the banking companies in India under the initiative of RBI and the BR Act were undernoted in Table 1

Table 1: Social Banking Initiatives in Indian Banking Sector

Date	Major Landmarks
Dec 1967	Introduction of Social Controls over banks with a view to securing a better alignment of the banking system to the needs of economic policy.
22 Dec 1967	National Credit Council set up to provide a forum to discuss and assess credit priorities on an all India basis. Council was to assist RBI and government to allocate credit.
19 Jul 1969	14 major Indian Scheduled Commercial Banks with deposits of over Rs 50 crores nationalized 'to serve better the needs of development of the economy in conformity with national policy objectives'.
Dec 1969	Lead Bank Scheme introduced which envisaged an area approach to banking to meet the credit gaps in the economy.
Feb 1970	The Agricultural Credit Board set up with Governor as Chairman to formulate and review policies in the sphere of rural credit.
14 Jan 1971	Credit Guarantee Corporation of India Ltd. Established. To facilitate bank landings to the priority sectors. It guaranteed credit extended by scheduled commercial banks to small borrowers and for other priority purposes.
1972	Priority Sector lending
26 Sep 1975	Regional Rural Banks were set up as alternative agencies to provide credit to rural people in the context of the 20 Point Programme. These were expected to "combine the rural touch and local feel, …with the modern business organization…."
1975	20 point economic programme introduced.
1976	Village Adoption Scheme for banks introduced.
1977	Integrated Rural Development Programme (IRDP) initiated as a poverty alleviation measure.
27 May 1978	The Deposit Insurance Corporation (DIC) took over the undertaking of the Credit Guarantee Corporation of India Ltd. (CGCI) to form the Deposit Insurance and Credit Guarantee Corporation (DICGC) i.e. July 15, 1978.
1979	Rural Planning and Credit Cell set up in the Reserve Bank of India to ensure proper implementation of the multi-agency approach to credit in rural areas.
1980	6 more banks nationalized
1992	SHG Banking
Source: Survey of Literature	

6.1 Social Responsibility and Reporting

Social responsibility is the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviors that is consistent with sustainable development and the welfare of society and takes into account the expectations of stakeholders [xxxix]. To highlight the role of banks in corporate social responsibility the RBI circulated a notice on December 20, 2007 for all the scheduled commercial banks, with title "Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting – Role of Banks" (RBI Notification, 2007[xl]). Major things that pointed out in the notice were regarding Corporate Social Responsibility, Sustainable Development, and Non-Financial Reporting. Briefing about the corporate social responsibility programme to other member commercial banks RBI followed many international initiatives to

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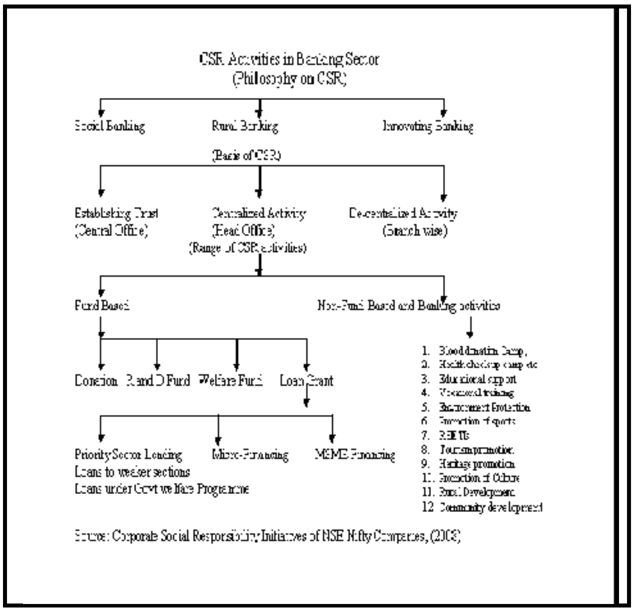
highlight the importance of this notice like United Nations Environment Programme Finance Initiative (UNEPFI), Global Reporting Initiative (GRI), International Finance Corporation, The Equator Principles, and Declaration on Financial Institutions.

However, the main thrust of social responsibility activities in India can be better depicted in the below Chart I. It is observed that for the Indian banking institutions whatever the CSR activities are happening are centered on education, rural upliftment, helping the physically challenged and so on. Some of the CSR initiatives, the major banking companies have undertaken are Education for all, Community development, Adoption of Children, Vocational training, Rural Development, Environment protection, Socio-economic development of the vulnerable sections of society.

Chart I: CSR Activities in Banking Sector



6.2 Rural and Social Banking Issues

Since the second half of 1960s, commercial banks have been playing an important role in the socio-economic transformation of rural India. Besides actively implementing Government sponsored lending schemes, Banks have been providing direct and indirect finance to support economic activities. Mandatory lending to the priority sectors has been an important feature of Indian banking. The Narasimham committee had recommended for doing away with the present system of directed lending to priority sectors in line with liberalization in the financial system. The recommendations were, however, not accepted by the Government. In the prevailing political climate in the country any drastic change in the policy in this regard appears unlikely. The banking system is expected to reorient its approach to rural lending. 'Going Rural' could be the new market mantra. Rural market comprises 74% of the population. Bank's approach to the rural lending will be guided mainly by commercial considerations in future.

Commercial Banks, Co-operatives and Regional Rural Banks are the three major segments of rural financial sector in India. Rural financial system, in future has a challenging task of facing the drastic changes taking place in the banking sector, especially in the wake of economic liberalization. There is an urgent need for rural financial system to enlarge their role functions and range of services offered so as to emerge as "one stop destination for all types of credit requirements of people in rural/semi-urban centers".

Barring commercial banks, the other rural financial institutions have a weak structural base and the issue of their strengthening requires to be taken up on priority. Co-operatives will have to be made viable by infusion of capital. Bringing all cooperative institutions under the regulatory control of RBI would help in better control and supervision over the functioning of these institutions. Similarly, RRBs as a group needs to be made structurally stronger (Shroff, 2007[[xli]]). It would be desirable if NABARD takes the initiative to consolidate all the RRBs into a strong rural development entity.

Small Scale Industries have, over the last five decades, emerged as a major contributor to the economy, both in terms of employment generation and share in manufactured output and exports. For SMEs, banks should explore the option of E-banking channels to develop web-based relationship banking models, which are customer-driven and more cost-effective. With SME sector emerging as a vibrant sector of the Indian economy, flow of credit to this sector would go up significantly. Banks will have to sharpen their skills for meeting the financial needs of this segment. Some of the Banks may emerge as niche players in handling SME finance. Flow of credit to this Sector will be guided purely by commercial considerations as Banks will find SMEs as an attractive business proposition.

Thus, the process of social banking in India can broadly be classified into three phases.

a. During the First Phase (1960-1990), after nationalization of banks wherein main emphasis was on channeling of credit to the neglected sectors especially weaker sections of the society through "branch multiplication and Priority Sector Lending".

b. Second Phase (1990-2005) focused mainly on strengthening the financial institutions as a part of financial sector reforms. During this period social banking was exercised mainly through Self Help Group Bank Linkage Programme and Kisan Credit Cards etc. Self Help Group Bank Linkage Programme was launched by NABARD in 1992, backed by Reserve Bank of India, to assist cohesive group activities by the poor so as to provide them easy access to banking.

c. During the third phase i.e. from 2005 onwards, the financial inclusion was extensively exercised on national level with main emphasis on providing basic banking facilities through no frill accounts.

7. INNOVATION IN BANKS IN TERMS OF SERVICES

Innovation means something new. Innovation is introduction of a new good, introduction of new method of production, the opening of a new market, the conquest of a new source of supply, carrying out of the new organization of any industry (Schumpeter, 1971[[xlii]]). Different researcher suggests that the term 'innovation' can be defined in terms of a new or innovative idea applied to initiating or improving a product, process, or service. Innovation is idea, practice or object that is perceived as how by an individual or other unit of adoption (Rogers, 1995[[xliii]]). Andrew (1986[[xliv]]) described innovation as a new idea, which may be recombination of old ideas, a scheme that challenges the present order, a formula or a unique approach, which is perceived as new by the individuals involved. According to Cabral (2003[[xlv]]), innovation is a new element introduced in the network, which changes, even if momentarily, the costs of transactions between at least two actors, elements or nodes in the network. Innovation means new ways of doing something. It may refer to incremental, radical, and revolutionary changes in thinking products, processes or organizations (Mckeown, 2008[[xlvi]]). In other words, innovation is the successful introduction of a new thing or method. Innovation is the embodiment, combination or synthesis of knowledge in original, relevant, valued new products, processes or services (Luecke and Katz, 2003[[xlvii]]). Innovation carries the organization from efficiency to creative heights and growth.

Broadly the innovations are of two types: technological (Information and communication technologies); and non-technological (R&D, human capital, intangible assets). Different types of innovations in the services sector may be are: opening of new markets, new ways of managing finance, new ways of organizing administration, new sources of raw material, new methods of production, creation of new services and new processes (National Knowledge Commission, 2009[[xlviii]]).

Innovation has been a buzz word in banking right from beginning. Many researchers have contributed their best towards developing frameworks for innovation. Several authors have developed various frameworks, drivers, and steps on how to be innovative from an organization perspective. Innovation inputs are information and communication technology, R&D and human capital, which brings organizational change and outputs are productivity, profitability, efficiency and growth. An analysis of service sector innovation and performance in tertiary sector, in general, and of banking sector, in particular is need of time. Some of the innovations in banking sector are: introduction of ATMs, credit card, debit card, smart card; increased categories of loans, demat account, young stars account, senior citizens account, money transfers, core banking, various kinds of insurance products, mobile banking, internet banking, mutual funds, filing IT returns and online taxation, updating current market trends, investing in diversified portfolio, employees retaining schemes so on and so forth.

Financial innovations lower cost of capital, reduce financial risks, improve financial intermediation, and hence enhancing welfare. The primary function of financial system is to facilitate the allocation and deployment of economic resources in an uncertain environment (Merton, 1992[[xlix]]). Financial innovation is helpful in ensuring smooth functioning and improves the overall efficiency of the system by minimizing cost and reducing risk. More generally, financial innovation has been a central force driving the financial system toward greater economic efficiency (Merton and Bodie, 2005[[l]]). Avasthi & Sharma (2001[[li]]) have analyzed that advances in technology are set to change the face of banking business. Innovation has always been a sought after area for organizations in any country. Innovation is identified as the main driver for companies to prosper, grow and sustain a high profitability (e.g. Drucker, 1988[[lii]]; Tufano (2002[[liii]]) discussed some of the key arguments for innovation in financial services as innovation exists to complete inherently incomplete markets; Innovation persists to address inherent agency concerns and information asymmetries; Innovation exists so parties can minimize transactions; search or marketing costs; Innovation is a response to taxes and regulation; and Increasing globalization, Technological shocks and risk motivate innovation.

The attempt towards innovation has been more so in India due to the country's emergence and growth, more or less, in all the sectors. The banking industry has been on an unprecedented growth trend during the past decade in the country (RBI, Annual Report, 2010). The sector today is fast paced and is constantly in the throes of change, with new regulations, new processes and new policies in place [[liv]]. Technology has played a critical role in the past in shaping the way things are today, and will continue to do more than ever before. From being just a support function, technology is now regarded largely as a strategic function aiding banking organizations. Most of the success achieved by this industry can be attributed to the ever changing innovative trends in technology. Service operations like Service Delivery Systems and Service Quality have dramatically become customer-centric during the past decade [[lv]]. The importance of service delivery and its impact on improving satisfaction and retention of customers, improving sales and market share, and improving corporate image cannot be overstated.

Innovative banking means the broader application of new methods and techniques, new scheme in the field of deposit mobilization, deployment of credit and bank management, for the example bank have introduced various types of schemes like retirement scheme, Akshaynidhi scheme, pension plan, money lending scheme such as education loans, car finance, home loans, household goods finance etc. Besides these, many banks have started Sunday bank branches, anytime anywhere banking module and mobile banking for the benefit of the customers. Innovative banking is a higher order constructed which consists of several distribution channel, it should be noted that electronic banking is provide a bigger platform than just banking via internet.

8. SERVICE INNOVATION MODELS

Several innovation models have been proposed by various authors under various titles. Innovation has been categorized into business model innovation, operations innovations, product innovation etc. Business model innovation refers to activities that considerably change the structure and/or financial model of a business. Every company has a business model, whether they articulate it or not. At its heart, a business model performs two important functions: value creation and value capture. Operations innovation defines improvements in the effectiveness and efficiency of fundamental business processes and practices, while product/services/markets innovation refers to the creation of new or fundamentally differentiated products, services or activities in markets.

For the purpose of this study, two models of innovation are considered. The first one is Bessant and Tidd's model of 4P's of Innovation and second one is, Pim den Hertog's Six-Dimensional Service Innovation Model (2010).

8.1 4Ps of Innovation

Bessant and Tidd (2007) identified 4Ps of innovation: Product Innovation, Process Innovation, Position Innovation and Paradigm Innovation. Product Innovation is new designs of products or features seen in tangible products such as house appliances, etc. Process innovation consists of fundamental changes in fabrication procedures or modifications in manufacturing methods, sequence, or equipment used to create products. Position innovation refers to contextual shifts with regard to the way products/services are introduced. Finally, paradigm innovation refers to changes in mental models which frame the actions or behaviors of a social entity and motivates their interest in performing new routines or engaging in practices that may have previously been devalued. Thus, a paradigm innovation may lead to shifts in perceptions, values, and belief systems that generate new actions and behaviors as well as motivate new practices or routines.

Satisfied customer is the best guarantee for stability of the organization in the long run. Banks can satisfy their customers only by providing customized, cost effective and timely services. With the help of technology banks are able to provide plethora of products and services to their customers which suit them. Major services provided by the Indian banks that are of international standards are Any time banking, Anywhere banking, Global ATM and Credit Cards, Internet banking facility etc.

8.2 Six Dimensional Service Innovation Model

A conceptual framework for service innovation was developed by Pim den Hertog (2010) through a Six-Dimensional Service Innovation Model. They define Service Innovation as a new service experience or service solution that consists of one or several dimensions. The first dimension is Service Concept or Service Offering. The second dimension is the New Customer Interaction and the role customers play in the creation of value. The third dimension is the New Value System or set of new business partners who co-produce a service innovation. The fourth dimension is related to new revenue model. The fifth dimension is the new delivery system; personnel, organization, culture. The sixth dimension is technological, which is a new service delivery system.

9. APPLICATION OF INNOVATION MODELS

The two models of innovation were applied on innovative strategies of the selected banks in India. The new innovative ideas of these banks in terms of services offered are mentioned below. For the purpose of study, recent and innovative services are only considered.

9.1 State Bank Of India

State bank of India, the largest public sector bank in India, offers the following innovative services.

a. **SMS Unhappy:** This innovative idea was of SBI wherein any customer who wants to lodge a complaint sends the message “Unhappy” to a specified number. The Happy Room then calls the customer and records the details of the complaint. The complaint is then forwarded and settled. Other banks in India have also started imitating this service.

b. **Crorepati Only Branch:** SBI has launched first of its kind branch for High Networth Individuals (HNI) where it takes minimum Rs 1 crore to open an account, and that too on invitation only. This branch offers specialized banking facilities like relationship managers, 24/7 lockers, extended banking hours, doorstep pick-up and drop facilities, in addition to pampering customers five-star amenities at the branch. According to SBI, an attractive feature of the branch is 24 hour open lockers. The bank also is providing special dressing rooms for customers to cater to the needs of late night function goers segment.

c. **One Rupee Bank:** In its urban financial inclusion initiative, SBI has started a new innovation through ‘One rupee bank’. A customer can open an account with just one rupee through the bank's kiosks. This is a part of SBI's service through kiosks, an initiative to provide banking services to under-banked sections of society.

d. **Other Innovative Strategies:** Other innovative strategies of SBI also include, Online Education, Online Home, Online SME, Online Demat, Online Car Loans, USA Patriot Act Certification, SBI Loan for Pensioners, e-Invest (IPO investments. SBI Yuva Card (18-30 years), CAG (Corporate Accounts Group), Cyber Plus and Swarojgar Credit Card etc.

9.2 ICICI Bank

ICICI Bank, the pioneer of Private Sector banking in the country, has lot of innovative feathers in its cap. Some of its recently launched innovative services namely, Online Account Opening, Money Manager, Gold Online, Mutual Funds Online, Forex Online, Life Insurance Online, Shop on iMobile, Mobile Money Transfer (IMPS), Investments at ATM, Payments and Transfers at ATM, Compliments and Complaints and TV Banking.

9.3 YES Bank

YES Bank, one of the leading Private sector banks in the country undertaken some of the innovative initiatives which includes

a. **Outsourcing:** Outsourcing is the major innovative strategies of YES Bank. The bank is engaged in outsourcing of technologies, ATMs and even branch buildings.

b. **Knowledge Banking:** Apart of providing common banking solutions, the bank executives also act as consultants delivering business solutions.

c. **Microfinance Direct:** YES Bank is the earliest private sector bank to start offering micro-loans directly to poor customers.

d. **Futuristic Branch:** A chip embedded in the debit cards of top customers alerts staff when one walks in. An executive meets him and greets him by name. This technology is on trial in the South Extension branch in Delhi.

e. **Double Security:** Besides their regular password, a second code is also generated just in time, and delivered to the customer's mobile.

f. **Honey Farming:** The bank has extended small loans of about Rs 25,000 each to over 2,000 bee farmers. The farmers provide their stocks of honey as collateral.

g. **YES- Professional Entrepreneurship Programme (YPEP):** The bank tapped the B-school alumni network to hire top-notch graduates unhappy with the jobs they had chosen. That's now become a campus strategy.

h. **Responsible Banking:** A key differentiator for the bank, the programmes aim is to develop innovative business solutions for social and environmental problems.

i. **Money Monitor:** Savings account customers get an online personal finance and wealth management software.

j. **YES Assist:** An innovative service operation to provide Concierge Services, Medical Assistance, Home Assistance, Automobile Assistance and Travel Assistance YES Bank's Direct Banking strategy focuses on leveraging of technology to bring about a paradigm shift in the way Banking services are provided to the customers in India. YES Bank has adopted a complementary "Bricks & Clicks" model and developed a Unique Direct Banking proposition to reach out to its customers with superior product delivery and internationally benchmarked service proposition.

9.4 BANK of Baroda

Products Bank of Baroda provides various banking products and services to its customers. These include Retail Banking, Rural/Agri. Banking, Wholesale Banking, SME Banking, Wealth Management, Demat Product Enquiry, Internet Banking, NRI Remittances, Baroda e-Trading, and ATM / Debit Cards.

9.5 Housing Development Finance Corporation Bank

HDFC BANK also acquired the Japanese technique for smooth running of work and effective work place organization. Five 'S' Part of Kaizen is the technique which is used in the bank for easy and systematic work place and eliminating unnecessary things from the work place. The five S stands for S-1 SORT, S-2 SYSTEMATIZE; S-3 SPIC-N-SPAN; S-4 STANDARDIZE; and S-5 SUSTAIN. The bank also offers Premium Banking and Private banking services for the benefit of customers. HDFC BANK offers cutting edge investment and merchant banking services to a wide range of corporate of different sizes across sectors. The bank has excellent relationships with domestic and international banks, financial institutions, mutual funds, insurance companies, PE funds, VC funds, sovereign funds, multilateral development agencies etc, which enable them to arrange diverse debt and equity funding requirements of corporate in a cost-effective and timely manner.

HDFC Bank was the first bank in India to launch an International Debit Card in association with VISA (VISA Electron) and issues the MasterCard Maestro debit card as well. The products offered by the Investment Banking Division include Project appraisal, structured finance, loan syndication and debt capital markets; Equity Placement; M&A and Corporate Advisory Services; and

Capital Market Advisory Services. HDFC Bank provides correspondent bank services to Co-operative Banks, Private Banks, Foreign Banks & RRB's. Banks can leverage HDFC bank's branch network, technology and product capability. The bank has a wide range of products engineered to suit the needs of the banking sector this is backed up by a dedicated Relationship Management Team and dedicated servicing department.

9.6 Punjab National Bank

The innovative idea adopted by PNB is well accepted by the bank customer from opening of accounts to providing of value additive services. A lot of innovation took place in offering value added services. The new facility allows PNB customers to find out their savings account balance by giving the bank a missed call. The PNB Krishi Card Scheme is the presently the best product of its kind, available in the market under which farmers can withdraw cash for meeting short term production needs as well as domestic requirements. No bills/receipt is asked for financing up to Rs. 5 lacs.

Punjab National Bank (PNB) launched two new products, the PNB World Travel Card and the PNB Platinum Debit Card, in association with MasterCard to meet customer expectations to celebrate the bank crossing a major milestone of enrolling more than 10 Million Debit Card holders.

PNB Global is a truly international Credit Card which is welcomed at over 29 million merchant establishments & 1 million Visa ATMs worldwide. PNB offers Internet Banking, Mobile Banking and Phone Banking. The unique Money Transfer Service Schemes includes Xpress Money, Money Gram, Xoom.com, Ezremit and Western Union.

9.7 Bank of India

Bank of India is also the leading pioneer in the field of innovative banking. The BOI Cash management services specifically for Corporate Customers, which offers fast track cheque collections, speedier release of funds and profitable funds management, at a reasonable cost. The Bank was first to introduce 'Indian Green Card' for the farmers in the banking industry way back in 1980s. The concept has been adopted in all the Banks, thereafter with further modifications. The bank offers a large number of products with value additions such as Kisan Suvidha Card, Kisan Gold Card and Kisan Samadhan Card etc.

9.8 ING VYAS Bank

The bank is in the forefront in providing innovative services. The bank offers 'Easy Banking solutions' in the form of ING-Mobile Banking service, ING-SMS Banking service, ING-Phone Banking service, IMPS – Instant fund transfers on Internet and so on.

ING-Private Client Group brings wealth management solutions to High Net worth individuals and entities. This includes individuals, families, small businesses, large corporations and institutions. The bank's approach is based on mature insights, total transparency and a comprehensive range of products and services on a non-discretionary platform.

Wholesale banking is a reflection of ING's ability to provide its corporate clients in India a full range of commercial, transactional and electronic banking products. The bank offers a wide array of client-focused corporate banking services, including working capital finance, trade and transactional services, foreign exchange, investment management and cash management.

10 ANALYSIS OF SERVICE INNOVATION IN BANKS

The service innovation of the above Eight banks have been analyzed and various services offered by these banks were tried to fit into the 4P's Innovation Model and Six Dimensional Service Innovation model. The results of the analysis are presented in the following Tables 2 and 3 respectively which are self explanatory.

Table 2: 4P's of Innovation Model

	SBI	BOB	BOI	ING	PNB	HDFC	YES BANK	ICICI Bank
roduct nnovation	One Rupee Bank	Baroda Utsav Deposit Scheme/ Baroda SME Gold Card/ PENSION AADHAAR CARD	E-commerce	Online Account Opening	PNB Xpress Money Remit Card	International Debit Card/ Treasury business	Honey Farming	Online Account Opening

rocess nnovation	SMS Unhappy	Online complain SPGRS	SMS based Grievances Redressal	Online Mobile Money Transfer	PNB bio-metric cards/ Smart Card/ Miscall to know balance	Online Account Opening /Money Transfer	Responsible Banking/ Sustainable Investment Banking division	Investments in ATM
osition nnovation	Expansion abroad	"Project-Navnirmaan"	International travel card/ Star e remit	IMPS	Expansion abroad	IMPS	Professional Entrepreneurship Programme	IMPS
aradigm nnovation	Mobile Banking	Customer Education / service delivery, service quality and brand	Mobile Banking	Mobile Banking	Doorstep Banking Services/ Mobile Banking	Five 'S' Part of Kaizen	Bricks and Clicks Model	Customer Friendly

Table 3: Six Dimensional Service Innovation Model

	SBI	BOB	BOI	ING	PNB	HDFC	YES BANK	ICICI Bank
Service Concept or Service Offering	SMS Unhappy	Responsible Banking	Relationship Beyond Banking.	Online Mobile Money Transfer	Single Window Service	Relationship Banking/ Straight from the heart	Knowledge banking	Visa Money Transfer
New Customer Interaction	Crorepati Branch	4 in 1 AC/SARATHEE, to promote financial inclusion/ Mobile Banking vans	STAR ABHILASHA CARD	ING Fortuna(3-in-1 account)	Financial Inclusion Initiatives/ 2 in 1 AC	Business Ki Baten	YES First for Women/ Bricks & Clicks	Financial Inclusion Initiatives/ 3 in 1 AC
New Value System	Link with Kirana Shops	Baroda e-Shoppe/ Central Pension Processing Centre (CPPC)	Credit Counseling Service	ING FD+/ Travel Insurance/ Forex Travel card	Online Banking	Japanese technique	Money Monitor/ Sustainable Investment Banking division	Online Banking
New Revenue Model	One Rupee Banking ,	Wealth management /Wholesale Banking	Trade finance/STAR CASH MANAGEMENT SERVICES	Wealth management/ Wholesale Banking	Merchant banking/ Insurance	Wealth management / Investment Banking	Micro finance Direct	Money Manager/ Power Transfer
New Delivery System	Online Account Opening	Online Account Opening /Money Transfer/ Mobile Banking vans	Online Account Opening /Money Transfer	Online Account/ Insurance Opening/	Doorstep Banking Services/ Mobile Banking	Online Account Opening /Money Transfer	Double Security	Online Account/ Insurance Opening

New Technology	Banking Anywhere/ Cutting-edge technology	Net Banking	Banking Through Mobile/ TV Banking	Easy banking	Smart Invest/ Online banking	Net Banking	Technology Edge and Outsource-ing	TV Banking/ b2 digital banking

11. CONCLUSION

Banks have changed in their operations and moved towards universal banking along with the increased usage of technology and technology-based services offering alternate channels such as smart cards, ATMs, usage of the internet, mobile and social banking. Banks have started deploying core banking, human resource management (HRM) and enterprise risk (ERP) management and process re-engineering etc to improve on their performance and productivity. Majority of banks are insisting on cashless and paperless payment modes. According to a KPMG study[lvi], a research analyst says, as of FY2012, non-cash payments constituted 91 per cent in value terms as compared to 88 per cent in FY in 2010 and 48 per cent in terms of value from 35 per cent in FY 2010.

As per the above discussion, it could be that the biggest challenge for banking industry is to serve the mass market of India. Companies have shifted their focus from product to customer. The better we understand our customers, the more successful we will be in meeting their needs. Greater customer-orientation is the only way to retain customer loyalty and stay ahead of competition. In a market-driven strategy of development, consumer preference is paramount. Gone are the days when customers used to come to the doors of the banks and now banks are required to chase the customers. Thus, only banks that are customer-centric and extremely focused on the needs of their clients will succeed and there is need to change the mindset of banks at all levels on this issue.

Public sector banks in particular need to bring about total customer-orientation not only in their products/services but their policies and strategies should also be customer-focused. In fact, they must realize that customer is the only profit center and all others are overheads. Identification of profitable customers, understanding their needs and preferences, improving the delivery systems and reducing the transaction costs for them should become important strategic issues for banks, if they want to survive in the fiercely competitive environment. Enhancing the customer base, cross selling of products/services and strengthening the customer relationship management will be the most important aspect.

In order to mitigate above mentioned challenges Indian banks must cut their cost of their services. Another aspect to encounter the challenges is product differentiation. Apart from traditional banking services, Indian banks must adopt some product innovation so that they can compete in gamut of competition. Technology up gradation is an inevitable aspect to face challenges.

Finally, it is observed that banks in India are moving towards sustainability through social banking and innovative service operations and offerings. The sample considered here for analysis has proved this point very clearly. The trend is evident in both public sector as well as private sector banks. It is found that both types of banks have embraced service innovation as a part of their future banking strategy and are moving continuously towards customer-centric and service-centric banks. It is also found that the innovation is not limited only to product or process innovations but also to business model innovation, operations innovation, markets innovation, and more importantly, paradigmatic innovations. These banks must create and sustain an environment that promotes creativity, leverages diversity, and facilitates multidimensional collaboration of resources and technologies in pursuit of desirable social and economic outcomes in future. The rate at which innovations are adopted by firms constitutes an important part of the process of technological change.

Given the new environment, banks can't remain unaffected by the changes round and challenges before them. Therefore banks need to restructure themselves. The following practices need to be adopted on urgent basis

- Greater professionalism.
- Greater emphasis on diversification and sources non interest income.
- Consultancy services.
- Equipping them to operate in the deregulated environment.
- Necessary changes in the legal stipulations.
- Cost management.
- Bench marking of service standards to improve productivity and Proficiency.
- A self- regulatory organization to monitor the activities of banking

Banks have made several innovations for sustenance by using the CRM System such as:

- The expansion of ATM networks including Biometric ATMs.
- Introduction of Single Window Service.
- Extension of Internet Banking services suitable for rural & semi-urban customers.
- Introduction of Plastic Money i.e. Credit Card, Debit Card, Smart Card.
- Mobile and E-Mail Alerts

- Introduction of more than one service in one Account.
- Introduction of new loan schemes as per the customer's needs viz. Renovation Loans and Tourism Loans etc.

12. SCOPE FOR FURTHER STUDY

In the era of LPG and WTO, a comprehensive research is needed regarding: WTO and how to create opportunities for Indian banks. A comprehensive study can be undertaken regarding non-interest income, Policies and strategies, Ways and means for the globalization of Indian banks, recent partial privatization of Indian public sector banks and their performance. There is lot of scope for further research in this area of service operations in banks. The models discussed in this article can further be applied by conducting an empirical survey to analyze the perception of customers on these banks.

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